

Research China

The risk of a Taiwan war and what it implies – part 1

- **Tensions are running high with rising fears over a Chinese invasion of Taiwan in the not too distant future. In this paper we look closer at the risk of a war.**
- **While risks are rising we still see a rather small probability of a Chinese invasion of Taiwan in the next couple of years (20%) as the costs for China are too high. However, with US and Taiwan having moved closer to China's 'red line' the risk of miscalculations or human errors that leads to an unintended war has increased.**
- **In addition, the risk of war in the medium to longer term is high in our view, as China is determined on reunification, their military capabilities will improve and they are likely to build more economic resilience against sanctions. At the same time, the West increasingly supports Taiwan as part of a 'democracy vs. autocracy' battle and sentiment among Taiwanese people towards China is gradually worsening, which leaves a peaceful reunification increasingly unlikely.**
- **In a coming paper, we will look at what the risk of war means for China and the global economy – and for companies investment strategy in China.**

Note: As we are not military experts, we draw extensively on statements and official policies by US and China as well as research by foreign policy and security experts. Our views are broadly aligned with consensus, although views do differ across security experts as well.

How did we get here?

Tensions over Taiwan have increased sharply over the past 5-6 years and **the war in Ukraine and the visit to Taiwan by US House speaker Nancy Pelosi has added further to tensions this year.** The West increasingly sees Taiwan as "Asia's Ukraine" viewing it as another democracy at threat from an autocratic state. China on the other hand has stressed that the two are not comparable as Ukraine is a sovereign state, while Taiwan is a part of China, which on paper is also recognized by most Western countries through their 'One-China' policies.

While the situation has been delicate for many years (see time line on the right), the **strategic balance over Taiwan started to deteriorate fast from 2016.** The pro-independence party DPP came to power led by President Tsai Ing-wen and in November the same year, Donald Trump won the US election marking a decisive shift in US policy on China from engagement to confrontation. A phone call by Tsai Ing-wen to congratulate Trump while he was President-elect, made it clear that tensions with China was set to rise, as it diverged from US policy since 1979 after which the US committed to not having direct diplomatic relations with a Taiwanese government as part of the One-China policy. At the same time, Taiwan is by far the most sensitive issue for China on the foreign policy front.

Since 2016 the **US has increased military presence around Taiwan and engaged in more semi-diplomatic relations with the Taiwanese government.** This culminated last week when speaker of the US House Nancy Pelosi met with Taiwan's President Tsai Ing-

Time line on Taiwan, China and US

1683: Taiwan conquered by Chinese Qing dynasty.

1895: China loses Taiwan to Japan during what China calls 'Century of Humiliation' (1840-1949).

1945: Japan withdraws from Taiwan after nuclear bombing of Hiroshima and Nagasaki, which defeats Japan in the Pacific War.

1949: KMT flees to Taiwan (Republic of China) after losing the civil war to the Communist Party. People's Republic of China (PRC) founded on the mainland.

1955: Sino-American Mutual Defence Treaty with Taiwan. Aimed to protect Taiwan from invasion of PRC.

1971: Taiwan loses UN seat to PRC

1972: US announce 'One-China' policy following the Mao-Nixon meeting.

1978/79: US ends diplomatic relations with Taiwan and establishes diplomatic relations with PRC.

1979: US Congress passes the Taiwan Relations Act vowing to enable Taiwan to maintain a sufficient self-defence capability.

1992: The 1992 Consensus. An agreement between officials of PRC and Taiwan saying both sides acknowledge 'One China' but has different interpretation of what 'One China' means.

1996: Taiwan Strait Crisis. A period of high tensions between US and PRC after US allowed Taiwan President to deliver a speech at Cornell.

2005: China passes Anti-Secession Law following increasing moves on Taiwan towards independence. It states China prefers a peaceful reunification but will use non-peaceful means if necessary.

2016: DPP leader Tsai Ing-Wen elected President of Taiwan on pro-independence platform and rejects the 1992 Consensus.

2016: US President Donald Trump government move to stronger pro-Taiwan policy. Accepts congratulatory phone call as President-elect from Tsai Ing-Wen diluting the 'no diplomatic relations' policy.

2020: US President Joe Biden elected. Continues policy of increased diplomatic relations with Taiwan and heightened military activity in South China Sea.

Sources: Misc. public documents and laws.

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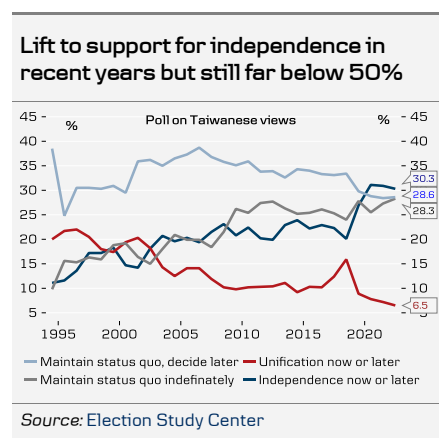
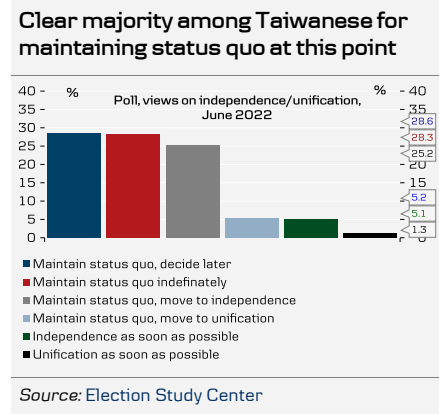
wen in the most high-level official visit to Taiwan since Newt Gingrich as speaker of the House visited Taiwan 25 years ago. **China, in turn, has increased military activity around Taiwan** and Pelosi’s visit has triggered the largest military drills around Taiwan ever seen.

China’s response illustrates that Pelosi’s trip has taken US and Taiwan close to China’s ‘red line’ and China is sending a clear warning to the US and Western allies that a further move across the ‘red line’ will not be accepted and could trigger a war. As such it is *part of a deterrence strategy* towards Taiwan independence forces as well as the US government. But the Chinese leadership is also under strong domestic pressure from nationalist forces in China to defend China’s sovereignty.

Why we see a small risk in the short term...

While tensions are likely to remain high, we see a rather small probability of around 20% of an invasion by China in the next couple of years, for the following reasons:

- 1. The economic cost for China is likely to be substantial.** China is already vulnerable economically at the moment as growth is under severe downward pressure. In addition, China still depends a lot on the West on technology. A war could have severe negative economic effects due to Western sanctions and significant uncertainty.
- 2. China prefers peaceful reunification.** Chinese leaders are generally risk averse and patient and a war now comes with significant risk – both economically as well as politically. China will likely not go to war unless they see no other way out. In the Art of War from around 500bc, China’s legendary military strategist Sun Tzu, argued for “subduing the enemy without fighting”. If war can be avoided it should be. It is worth noting that China has not been pushing for reunification soon in recent communication on Taiwan but rather been opposing Taiwan independence. In 2013 and 2019, Xi Jinping noted the Taiwan could not be passed on from generation to generation but it has not been repeated since then. China can likely live with ‘status quo’ for a long time but will not tolerate Taiwan independence.
- 3. China not ready militarily to take Taiwan yet without significant risk and cost.** Invading Taiwan and winning a war on Taiwan is a complicated military operation and many military experts argue (see for example [here](#), [here](#) and [here](#)) that although China has increased military capabilities, it is not yet able to win a war without significant military costs and casualties. Taiwan is an island making it hard to invade, and the scale of the operation makes it impossible to make a surprise attack. Substantial amounts of military equipment and troops will need to be sailed across the Taiwan Strait which is 128km at its’ narrowest point and adverse weather conditions in the strait add to the complications. Taiwan military has been preparing for decades for such an invasion. Add to this the possibility that the US helps defend Taiwan. Although officially, the US are not saying so, China has to consider the risk of it happening and the risk it spirals out of control.
- 4. US or Taiwan unlikely to cross China’s red lines.** Neither the US or Taiwan has an interest in a war as it would come with great cost for Taiwan and the global economy – and it could drag US into a war with great casualties and risk of it escalating into nuclear war. The US strategy instead seems to be one of ‘deterrence’ by making the perceived cost for China of invading Taiwan as high as possible and move as close as possible to China’s ‘red lines’ without actually crossing it. China’s ‘red line’ is a formal declaration of sovereignty with the support of a US government. While increasing support for Taiwan diplomatically and through arms sales, the US has



refrained from leaving its' policy of 'strategic ambiguity' meaning that the US states officially it will help Taiwan enable it to defend itself but without stating that the US would participate in the defence directly.

Taiwan itself understands the risk of invasion if declaring full sovereignty but at the same time works on getting as much support as possible from other nations, not least the US and EU. A *survey* among the Taiwan population shows low support for reunification but at the same time a clear majority of more than 80% supporting the status quo of some autonomy without declaring independence. Moving towards full independence would be very risky as it would likely trigger a Chinese invasion.

If China is not preparing for war, how then should we interpret the rise in military action around Taiwan? First, as mentioned above, it is likely a strategy to *deter* Taiwan and the US from crossing the 'red line' and make it absolutely clear it means business about not allowing Taiwan to break free from China. As a consequence, China responds immediately every time it sees any move by the US or Taiwan, that can be seen as a provocation or attempt to move the balance towards independence and away from the 'status quo'. Second, China is probably also scaling up preparations for a scenario that it hopes will not unfold. But *if* Taiwan should declare full independence with backing of the US, China would see themselves needing to respond. And it would most likely do so with support from the Chinese people.

The bottom line is, we don't expect a war around Taiwan in the near future. However, we do expect tensions to stay elevated and when tensions move up, there is always a risk that something goes wrong. A miscalculation or human error could trigger a tit-for-tat spiral that could lead to war.

A change of leadership in the US in 2024 has been mentioned as a period of higher risk. In a recent *interview*, American **veteran diplomat Chas Freeman warned that a dangerous point of time could be the vacuum between a possible change of US government in 2024-25**. Chas Freeman, a seasoned China watcher and interpreter at the Nixon-Mao meeting in 1972, argues that *"if in 2024, the election brings to power right-wing Americans with a commitment to Taiwan independence – such as Mike Pompeo [former Secretary of State] has articulated – this is a direct challenge to Beijing of exactly the sort that the Anti-Secession Law [in China] requires a military response to"*.

Another warning of invasion that received a lot of attention was a statement in March 2021 by Washington's former military commander in Asia-Pacific Philip Davidson. In a hearing in the Senate Armed Services Committee, he stated that China could invade Taiwan before 2027 due to *"staggering improvements in Chinese military capabilities and capacities, the political timeline for Xi Jinping and the long-range economic challenges in China's future"*. Other security analysts have *disputed his analysis*, though.

... but serious in the medium to long term

While we don't see an immediate risk of a Chinese invasion of Taiwan, we believe the risk is real on say a 10 year horizon. The main reason is, that China is very serious about the eventual need and justification for a reunification at some point. In the appendix we dive deeper into why this is the case. But the short version is that Taiwan was lost to Japan during China's 'century of humiliation', during which it was humiliated by mainly Western countries, and was returned to the Republic of China in 1945. Due to the civil war, where the ruling party KMT lost and fled to Taiwan, it has not been fully reunified with the People's Republic of China yet, but is still officially called the Republic of China. Full reunification has become a symbol of completely recovering from the 'century of

Key documents on Taiwan agreements

Three US-China joint communiqués, 1972, 1979, 1982.

Taiwan Relations Act, 1979

The Six Assurances (to Taiwan), 1982

US Relations with Taiwan (fact sheet), 2022, Department of State

China Anti-Secession law, 2005

Sources: links above.

Recent quotes on China's stance

[Xi Jinping in meeting with Biden in November 2021 \[see Xinhua\]:](#)

"Such moves [towards independence] are extremely dangerous, just like playing with fire... Whoever plays with fire will get burnt".

"We have patience and will strive for the prospect of peaceful reunification with utmost sincerity and efforts."

"That said, should the separatist forces for 'Taiwan independence' provoke us, force our hands or even cross the red line, we will be compelled to take resolute measures,"

[China defence minister Wei Fenghe in meeting with US defence minister Lloyd Austin:](#)

"If anyone dares to separate Taiwan from China, the Chinese military will not hesitate to fight, and will resolutely crush any "Taiwan independence" attempts at all cost, and firmly safeguard national sovereignty and territorial integrity".

Source: Xinhua, Global Times

humiliation’ and is an integral part of the Chinese Dream of rejuvenating China back to its previous high standing in the world and making it a strong and prosperous country. This also includes China covering the full territory from prior to the ‘century of humiliation’. Taiwanese independence would be seen as a new humiliation instigated by Western powers, which will not be tolerated in China.

Timing: When could China seek ‘reunification’ through non-peaceful means?

It seems increasingly unlikely that a peaceful reunification is possible. Surveys clearly show that the majority of Taiwan’s population has no wish to become a part of PRC and as time goes an identity of being Taiwanese is likely to strengthen further. China’s promise of a ‘One China, Two systems’ to Taiwan suffered a serious blow with the events in Hong Kong in recent years and has reinforced resistance among many Taiwanese who fear losing their democracy and freedom of speech.

So where does this leave the calculations in Beijing? We argued above a war is not imminent unless Taiwan and US crosses the ‘red line’ and declares Taiwan a sovereign state. But what does the timing look like, then? This is by nature going to be speculative but here are some things, we believe China is considering:

First, China wants to be absolutely certain that a peaceful reunification is not possible. For decades China’s policy has been one of ‘strategic patience’ and China will likely not move unless it sees no other way out. It would rather work over time to subdue its enemy than have to fight it.

Second, China may wait until it has reached significant strength both militarily as well as economically. For the military to have reached its ‘maximum strength’ may take another 5-10 years of military build-up. For the economy to be better able to withstand significant foreign sanctions and be self-reliant on core technologies will probably also take at least 10 years. Having built such a strength would contribute to subduing attempts of resistance or interference from other nations, such as the US.

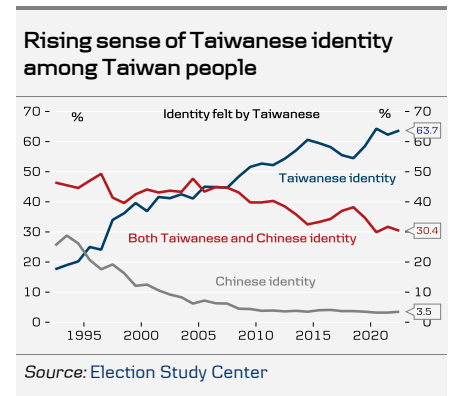
Third, the West will likely expand relations and support for Taiwanese democracy (as witnessed by the Pelosi visit) and as time passes it will draw Taiwan further away from PRC. In combination with a strengthening Taiwanese identity it speaks in favour of China not waiting too long.

As stated earlier, there are scenarios that could trigger a Chinese invasion within the next five years. **But if China can choose, we don’t believe it will happen until China is on a much stronger footing, possibly in 5-10 years’ time.**

Will the US join a war on Taiwan?

The US policy on the defence of Taiwan is laid out in the Taiwan Relations Act from 1979, which was a response by the US Congress to President Carter’s end of diplomatic relations with Taiwan. It makes clear the US will keep close ties to Taiwan and on the question of defence it states that “*the United States will make available to Taiwan such defense articles and defense services in such quantity as may be necessary to enable Taiwan to maintain a sufficient self-defense capability*” (bold is author’s).

So while the US is committed to help Taiwan defend itself, the US has left it unclear whether it would intervene directly in war actions, a policy called ‘strategic ambiguity’. Calls have been made in the US from some academics and politicians for a move to ‘strategic clarity’ (see for example [statement](#) by Republican and member of Congress Mike Gallagher) in which the US explicitly states it will defend Taiwan. But the White House has refrained from making such a move. US policy coordinator for the Indo-



US official policy on Taiwan

From the “*US Relations with Taiwan (fact sheet)*, 2022:

“The United States has a longstanding one China policy, which is guided by the Taiwan Relations Act, the three U.S.-China Joint Communiqués, and the Six Assurances.”

“We oppose any unilateral changes to the status quo from either side; we do not support Taiwan independence; and we expect cross-Strait differences to be resolved by peaceful means.”

“Consistent with the Taiwan Relations Act, the United States makes available defense articles and services as necessary to enable Taiwan to maintain a sufficient self-defense capability – and maintains our capacity to resist any resort to force or other forms of coercion that would jeopardize the security, or the social or economic system, of Taiwan.”

Sources: *US Relations with Taiwan (fact sheet)*, Department of State (2022).

Pacific Kurt Cambell has on several occasions stated such a move would come with “*significant downsides*”.

Nevertheless, President Biden has *on three occasions* over the past year responded “yes” to questions from reporters on whether the US would defend Taiwan if China invaded the island. But every time it has quickly been walked back by White House officials making clear there had not been a change to official US policy. Although it may have been gaffes with Biden not himself being aware of the US official stance (which some of his remarks have indicated) it has nevertheless *been seen by some* commentators as a shift in US stance to a tougher policy as some they have questioned you would make the same gaffe three times.

Conclusion – a war is not imminent but the risk is high in the medium to long term

In conclusion, despite current tensions we do not see a high risk of war on Taiwan in the near term as all sides have an interest to maintain status quo. However, the risk is real in the medium to longer term as China may eventually choose a path of non-peaceful reunification if it sees no other way out. A risk within the next couple of years may come around a possible change of government in the US in 2024 if a new US President-elect wishes to change the status quo.

We expect tensions to stay elevated for the foreseeable future as we expect the US and EU to continue to expand relations with Taiwan and keep a high military presence around Taiwan and the South China Sea. China in response, is set to continue a high level military drills. This may be a **new status quo** at a higher level of tension than before. In the end, both sides have a strategy of deterrence. But with tensions running this high, the risk of miscalculations or unintended accidents that trigger a tit-for-tat spiral could also end in military confrontation.

In a forthcoming paper we will look at the possible economic and political consequences of a war – and what the new geopolitical situation means for business investments and strategy.

Appendix: Why China means business about full reunification with Taiwan

To understand the sensitivity of the Taiwan issue for China, we have to look at the place the island has in China’s history. Taiwan was conquered by the Qing dynasty in 1683 – long before the United States of America was founded – and is seen by China as a legitimate part of the country. Taiwan was lost to Japan in 1895 during what in China is called ‘the century of humiliation’, a period of a little over hundred years spanning from the First Opium War in 1840 to 1949, when the Communist Party won the civil war and founded PRC. During these around 100 years, on top of Taiwan, China lost Hong Kong and Macau and was to a smaller or larger degree invaded by foreign countries throughout this period. It was a time characterized by incursions by mostly Western powers, major war reparations imposed on China and war crimes committed by Japan. National treasures such as the Summer Palace in Beijing was sacked. For a country, that prior to this time for centuries saw itself as ‘the Middle Kingdom’ and superior to other countries, this left a very deep wound, which Chinese students are extensively reminded of in history lessons.

A central part of the Chinese Dream is a full rejuvenation of China by 2049 back to its standing prior to the ‘century of humiliation’. That also implies getting China fully

back to the geographical territory it had prior to this and with both Hong Kong and Macau fully reunited, Taiwan is the last piece missing. While Japan left Taiwan in 1945, the Nationalists Party, KMT, fled to Taiwan (called Republic of China) in 1949 after losing the civil war to the Communists. And since then the PRC has not had control over Taiwan.

A full reunification with PRC has been a cornerstone for all Chinese leaders of PRC and the intention has been clearly stated by China in key US-China documents, such as the Shanghai Communiqué following the Mao-Nixon meeting. Here it says: *“The Taiwan question is the crucial question obstructing the normalization of relations between China and the United States; the Government of the People’s Republic of China is the sole legal government of China; Taiwan is a province of China which has long been returned to the motherland; the liberation of Taiwan is China’s internal affair in which no other country has the right to interfere; and all U.S. forces and military installations must be withdrawn from Taiwan. The Chinese government firmly opposes any activities which aim at the creation of “one China, or one Taiwan,” “one China, two governments,” “two Chinas,” and “independent Taiwan,” or advocate that the status of Taiwan remains to be determined.”* The policy is unchanged today and repeated again and again in key policy reports around China’s annual National Congresses and the Communist Party Congress every five years.

In 2005, under the leadership of President Hu Jintao, China passed the Anti-Cessation Law, which underlines that *“both the mainland and Taiwan belong to one China”* and lays out a process to reach peaceful reunification. However, it also states that if Taiwan declares independence from China or *“possibilities for a peaceful reunification should be completely exhausted, the state shall employ non-peaceful means and other necessary measures to protect China’s sovereignty and territorial integrity”*.

Since the Ukraine war broke out, China has been clear that Ukraine cannot be compared with Taiwan. Rather China’s foreign minister Wang Yi has *stated* most recently in early July that *“Some countries emphasize the principle of sovereignty on the Ukraine issue, but keep challenging China’s sovereignty and the one-China principle on the Taiwan question, and even deliberately create tensions in the Taiwan Strait. This is obviously a blatant double standard. The Chinese side rejects any attempt to draw parallels between the Ukraine crisis and the Taiwan question, and will firmly defend its core interests.”*

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